

Report of the Directors

The Directors of the Company are pleased to present to its shareholders the report of the Directors and the audited consolidated Financial Statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2001.

1. PRINCIPAL ACTIVITIES

The Group is principally engaged in the production and sales of various types of high grade cement and the production of commodity clinker, the raw materials of high grade cement. The cement products are mainly used in construction projects of roads, bridges and housing development, while its commodity clinker is mainly sold to cement grinding mills.

2. MAJOR WORK OF THE DIRECTORS IN 2001

- (1) Prepared and convened the 2000 Annual General Meeting, at which the 2000 Annual Report and all proposed resolutions submitted for consideration were approved.
- (2) Reviewed and approved the 2001 interim report.
- (3) Approved the resignation of Mr. Zhang Xushang as a non-executive director.
- (4) Approved the Company’s investment in the following companies (the details of which are set out in paragraph 30 headed “Disclosure of Major Events” of this report):
 - (a) Bangbu Hailuo Cement Co., Ltd.;
 - (b) Wenzhou Hailuo Cement Co., Ltd.;
 - (c) Anhui Zongyang Hailuo Cement Co., Ltd.;
 - (d) Anhui Chizhou Hailuo Cement Co., Ltd.;
 - (e) Fenyi Hailuo Cement Co., Ltd.;
 - (f) Shangyu Hailuo Cement Co., Ltd.; and
 - (g) Jiande Hailuo Cement Co., Ltd.

- (5) Approved the injection of capital by the Company into the following companies (the details of which are set out in paragraph 30 headed “Disclosure of Major Events” of this report):
- (a) Shanghai Hailuo Mingzhu Cement Co., Ltd.;
 - (b) Zhangjiagang Hailuo Cement Co., Ltd.; and
 - (c) Nanjing Hailuo Cement Co., Ltd.
- (6) Approved the disposal of accounts receivable of approximately RMB58,500,000 to Anhui Conch Holdings Company Limited (the “Holdings”) by the Company (details are set out in paragraph 9 headed “Connected Transactions” of this report).

3. SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associated companies held by the Company as at 31st December, 2001 are set out in Notes 6 and 7 to the Financial Statements as contained in this annual report.

4. RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2001 and financial position of the Group as at such date are set out on pages 51 to 112 of the Financial Statements as contained in this annual report. According to the financial information collected pursuant to International Accounting Standards, profit after tax and minority interests of the Group for the year 2001 was approximately RMB206,658,000. The Board of Directors of the Company recommended to make allocation in respect of the shareholders’ equity for the year ended 31st December, 2001 as follows:

- (1) 10% of profit after tax based on the statutory accounts prepared in accordance with PRC accounting standards, amounting to approximately RMB44,606,000, is recommended to be appropriated for the statutory public reserve fund pursuant to the Articles of Association of the Company;
- (2) 10% of profit after tax based on the statutory accounts prepared in accordance with PRC accounting standards, amounting to approximately RMB44,606,000, is recommended to be appropriated for the statutory public welfare fund pursuant to the Articles of Association of the Company;
- (3) a total of approximately RMB49,174,000 is recommended by the Directors to be appropriated for payment of final dividend of RMBO.05 per share; and
- (4) the above proposed allocations are subject to approval by the Company’s shareholders at the 2001 Annual General Meeting.

5. FINANCIAL SUMMARY (FOR THE YEARS ENDED 31ST DECEMBER)

(RMB'000)	2001	2000	1999	1998	1997 (pro forma)
Net Income from					
Operation	2,043,989	1,323,935	1,066,580	831,503	761,789
Net Profit	206,658	113,772	58,588	105,025	170,070
		(117,611)	(62,427)	(108,864)	(171,349)
Total Assets	5,886,330	4,514,380	4,304,576	4,314,256	2,427,575
		(4,335,195)	(4,121,552)	(4,127,392)	(2,236,871)
Liabilities	3,001,579	2,051,234	2,053,611	2,113,607	552,494

Note: The bracketed figures are financial data derived after retrospective adjustments made in accordance with the International Accounting Standards to those of the previous years, details of which are set out in Note 31 to the Financial Statements as contained in this annual report.

6. MAJOR PROJECTS

During the reported period, the Group had numerous technological upgrading and expansion projects related to grinding mills and clinker factories. These projects resulted in heavy workload and onerous responsibilities. However, staff of the Company were determined to meet the schedule in implementing the construction projects diligently by effective planning and careful organisation. As a result, these projects progressed smoothly and were completed with the preset objectives being attained generally.

Construction of Clinker Production Lines

- (1) Phase One of the project for Anhui Digang Hailuo Cement Co., Ltd, a subsidiary of the Company, comprises the construction of two dry-process clinker production lines, each with an annual production capacity of 750,000 tonnes. Approval for the project was granted by approval document Wan Jing Mao Tou Zi [2000] No.686. The project progressed smoothly and trial production was carried out in 2001.
- (2) Phase Two of the project for expanding the clinker production line, with an annual production capacity of 1.2 million tonnes, of Anhui Tongling Hailuo Cement Co., Ltd. started in May 2001, and was in smooth progress.

- (3) The project for Anhui Zongyang Hailuo Cement Co., Ltd. comprises the construction of two clinker production lines, each with an annual production capacity of 750,000 tonnes. Approval for the project had been granted by approval document Wan Jing Mao Tou Zi [2000] No.665 issued by Anhui Economic and Trade Committee. The project was in smooth progress and machinery installation was completed ahead of schedule. Both clinker production lines commenced trial production in December 2001 and the Group's annual clinker production capacity has thereby been increased by 1,500,000 tonnes.
- (4) Phase One of the project for Anhui Chizhou Hailuo Cement Co., Ltd. comprises the construction of two clinker production lines, each with an annual production capacity of 1,500,000 tonnes. The construction of the first clinker production line started in July 2001. Approval had been granted by the approval document Guo Jing Mao Tou Zi [2001] No.404 issued by the State Economic and Trade Committee. The project has been in smooth progress and is expected to begin trial production in 2002. Preparatory works such as utility connections and site formation for the second clinker production line began in October 2001. Approval had been granted by approval document Guo Jing Mao Tou Zi [2001] No.499 issued by the Anhui Economic and Trade Committee.

Technological upgrading or new projects for the grinding production lines

- (1) Construction of the cement grinding production line with an annual production capacity of 300,000 tonnes in Jianyang Hailuo Cement Co., Ltd. was completed in March 2001, and trial production has been carried out.
- (2) Technological upgrading and expansion of the cement grinding production line, with an annual production capacity of 500,000 tonnes, of Nantong Hailuo Cement Co., Ltd. was completed in November 2001 and trial production has begun. At present, the annual cement grinding capacity of that company reached 1,200,000 tonnes.
- (3) For the technological upgrading and expansion of the cement grinding production line, with an annual production capacity of 300,000 tonnes, of Taizhou Hailuo Cement Co., Ltd, calibration and testing of equipment started in December 2001. The project was approved by approval document Tai Hai Zheng Jing [2000] No.37. Upon completion of the project, the annual cement grinding capacity of that company will reach 300,000 tonnes.
- (4) Construction of the cement grinding production line, with an annual production capacity of 550,000 tonnes, of Bangbu Hailuo Cement Co., Ltd. commenced in May 2001. The project was approved by approval document Jing Mao Ji Zi [2000] No.305. Essential machinery installation is underway and trial production is expected to start in February 2002. Upon completion of the project, the annual cement grinding capacity of that company will reach 600,000 tonnes.

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- (5) Technological upgrading of the cement grinding production line, with an annual production capacity of 500,000 tonnes including replacement of grinding machines and pier reconstruction for Shanghai Hailuo Cement Co., Ltd. started in June 2001 and has been progressing well. The project was approved by approval document Feng Jing Gui Zi [2000] No.55 and 69. All civil works were completed and trial production is expected to start in March 2002. Upon completion of all the projects, the annual cement grinding capacity will reach 1,500,000 tonnes. Moreover, throughput and efficiency of the pier will also be enhanced significantly.
- (6) Technological upgrading and expansion of the cement grinding production line, with an annual production capacity of 1,500,000 tonnes, of Zhangjiagang Hailuo Cement Co., Ltd. started in July 2001 and has been progressing well. The project was approved by approval document Su Jing Mao Ji Zi Gai [2000] No.930. Trial production is expected to start in the first half of 2002. Upon completion of the project, the annual cement grinding capacity of that company will reach 1,900,000 tonnes.
- (7) Technological upgrading and expansion of the cement grinding production line, with an annual production capacity of 600,000 tonnes, of Nanjing Hailuo Cement Co., Ltd. started in October 2001 and has been progressing well. Trial production is expected to start in the first half of 2002 and the annual cement grinding capacity of that company will then reach 900,000 tonnes.
- (8) The design and preliminary works on the construction of two cement grinding production lines in Wenzhou Hailuo Cement Co., Ltd., each with an annual production capacity of 750,000 tonnes, were completed. The project was approved by approval document Wen Shi Ji Ji [2001] No. 106. Trial production is expected to start in the second half of 2002. The annual cement grinding capacity of that company will then reach 1,500,000 tonnes.
- (9) Geological exploration and project approval was finalized with regard to the technological upgrading and expansion of the cement grinding production line, with an annual production capacity of 550,000 tonnes, of Shanghai Hailuo Mingzhu Cement Co., Ltd. The project was approved by approval document Pu Jing Mao Xiang Zi [2001] No.32. Trial production is expected to start in the second half of 2002. Upon completion of the project, the annual cement grinding capacity of that company will reach 800,000 tonnes.

7. INCOME TAX RATE

The Company is generally subject to Enterprise Income Tax levied at a rate of 33% of taxable income based on its statutory accounts prepared in accordance with tax laws and regulations in the PRC. Pursuant to the document Caiyuzi [1997] No. 432 issued by Anhui Finance Bureau, the Company is entitled to a financial refund equivalent to 18% of the Company's taxable income in respect of Enterprise Income Tax paid. According to the document Caishui [2000] No. 99 "Notice regarding the strict enforcement of the State Council's "Notice regarding the rectification of the policies on taxation and financial rebate formulated by local authorities" issued by the Ministry of Finance in October 2000, the preferential tax refund policy applicable to the Company pursuant to which Enterprise Income Tax is imposed at 33% and a rebate is made at 18% (i.e. 15% Enterprise Income Tax being imposed in substance) implemented may be maintained till 31st December, 2001.

According to the document Caihui [2000] No. 3 promulgated in October 2000, an enterprise which enjoys the preferential tax refund policy should set off the amount of refund against the income tax for such period as the refund is received by the enterprise.

8. MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31st December, 2001, sales to the Group's five largest customers and to the largest customer accounted for 7.6% and 2.1% of the Group's total sales respectively, while procurement from the Group's five largest suppliers and from the largest supplier accounted for 57.7% and 31 % of its total purchases respectively.

Save as disclosed above, none of the Directors, supervisors, their respective associates (as defined in the Rules Governing the Listing of Securities on the SEHK) or, as far as the Directors are aware, any person holding 5% or more equity interests in the Company had any interests in the five largest customers or suppliers of the Group for the year ended 31st December, 2001. All payments for the principal raw materials and energy consumed by the Group were made in RMB.

9. CONNECTED TRANSACTIONS

Clay Supply Agreement

During the year ended 31st December, 2001, the Group purchased, as required in its ordinary course of business, the clay required for the production of its cement products by the Company and its subsidiaries from the Holdings pursuant to the “Clay Supply Agreement” entered into between the Company and the Holdings on 23rd September, 1997. The consideration paid by the Group was approximately 295,000 and has been reviewed by the auditors, details of which are set out in Note 26(a) to the Financial Statements as contained in this annual report.

Trademark Licensing Agreement

On 23rd September, 1997, the Holdings and the Company entered into a Trademark Licensing Agreement pursuant to which the Company is required to pay to the Holdings a royalty amounting to RMB1,513,000 per annum. The entire sum of the royalty for the year ended 31st December, 2001 has been paid by the Company and has been reviewed by the auditors, details of which are set out in Note 26(a) to the Financial Statements as contained in this annual report.

Composite Services Agreement

The Company and the Holdings entered into a Composite Services Agreement for a term of 10 years commencing from 1st September, 1997, being the date of incorporation of the Company. Under the agreement, the Holdings provided or procured services, facilities and supplies to the Company for the year ended 31st December, 2001 for a consideration of approximately RMB3,668,000 payable by the Group. Such service charges have been reviewed by the auditors, details of which are set out in Note 26(a) to the Financial Statements as contained in this annual report.

Supply of Cement Package Bags

The Group purchased cement package bags from Anhui Ningchang Packaging Material Co., Ltd. and Wuhu Hailuo Plastic Manufacturing Company Limited (both being sino-foreign joint venture companies of which 75% equity interests are owned by the Holdings). The purchases constituted connected transactions of the Group. The Group did not enter into any long-term supply agreement with such suppliers. For the year ended 31st December, 2001, the aggregate purchase price of cement packaging bags was RMB71,509,000, details of which are set out in Note 26(b) to the Financial Statements as contained in this annual report.

Accounts Receivable Transfer Agreement

On 13th December, 2001, the Company and the Holdings entered into an agreement pursuant to which the Holdings agreed: (1) to procure the repayment of accounts receivable of some RMB58,500,000 to the Company; and (2) to purchase such portion of the accounts receivable which remains outstanding as at 31st December, 2001 at a consideration equal to their aggregate book value.

Under such agreement, the Company sold to the Holdings the outstanding accounts receivable of RMB57,987,767 at a consideration equal to their aggregate book value. The Holdings fully paid the consideration of RMB57,987,767 for the accounts receivable to the Company in the year.

An announcement was issued by the Company in Hong Kong Economic Times and iMail in Hong Kong on 14th December, 2001 regarding the above mentioned transfer of accounts receivable, which constituted a connected transaction of the Company. It was expected that the profit of the Company would increase by approximately RMB25,000,000 as a result of such transaction. However, according to the document Caihui [2001] No.64 "Provisional Regulation on the Accounting Policy regarding the Transfer of Assets between Connected Parties" issued by the Ministry of Finance on 21st December, 2001, the difference in the amount of approximately RMB25,289,000 between the transfer consideration and the value of the accounts receivable will be recognized as capital reserve and not included in the profit and loss account. Details are set out in Note 25(g) and 26(a) to the Financial Statements as contained in this annual report.

Confirmation of the Connected Transactions by Independent Directors

All connected transactions of the Group which occurred during the year were conducted on normal commercial terms, on an arm's length's basis and (where applicable) in accordance with the relevant agreements in its ordinary course of business. The terms of the transactions were fair and reasonable so far as the Company is concerned and did not exceed the threshold (where applicable) referred to in the connected transaction rules waiver granted by SEHK. These transactions were reviewed by the auditors and were approved by the independent non-executive directors of the Company.

10. SHARE CAPITAL AND SHAREHOLDERS

(1) Share Capital Structure

The Company was listed on SEHK on 21st October, 1997. There was no new issue, rights issue or consolidation in connection with the Company's capital during the year. As at 31st December, 2001, the share capital structure of the Company was as follows:

	Number of Shares	Percentage to the total share capital of the Company (%)
A shares	622,480,000	63.3
H shares	361,000,000	36.7
Total share capital	983,480,000	100.0

Details are set out in Note 16 to the Financial Statements as contained in this annual report.

(2) Summary of Trading in the Shares of the Company during Year 2001

	HK\$/H Shares
Opening price on the first trading date	0.54
Closing price on the last trading date at the year end	1.72
The highest trading price during the year	2.6
The lowest trading price during the year	0.53
Total trading volume during the year (number of shares traded)	859,000,000

As at 31st December, 2001, the total number of shareholders of the Company was 257, among which the Holdings, on behalf of the State, held 622,480,000 A shares, representing about 63.3% of the total share capital of the Company; and HKSCC Nominees Limited held 359,149,999 H shares, representing about 36.5% of the total share capital and 99.5% of the total number of H shares of the Company. As at 31st December, 2001, save for the above shareholders, the Directors are not aware of any interests which were subject to any disclosure requirement under section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong).

11. SERVICE CONTRACTS, INTERESTS IN SHARE CAPITAL AND CONTRACTS OF DIRECTORS AND SUPERVISORS

During the year, there was no change of the Directors and supervisors of the Company except that Mr Zhang Xushang resigned as a non-executive Director of the Company. Brief biographical details of the directors and supervisors are set out on page 39 to 42 of this annual report. Each of the executive directors and supervisors has entered into a service contract with the Company for a term of three years, commencing from 1st September, 2000.

None of the Directors, supervisors or their respective spouses or children under 18 held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights to subscribe for shares in or debentures of the Company.

During the reported period, none of the Directors or supervisors of the Company has any material interests in any contracts entered into by the Company or its subsidiaries.

12. CODE OF BEST PRACTICE

For the year ended 31st December, 2001, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities of SEHK.

13. AUDIT COMMITTEE

During the reported period, the audit committee performed its functions as required under paragraph 14 in the Appendix 14 of the Rules Governing the Listing of Securities of SEHK, including the review of the Financial Statements of the Company for the year.

14. PURCHASE, SALE AND REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the year ended 31st December, 2001.

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15. PRE-EMPTIVE RIGHTS

The Articles of Association of the Company and the PRC laws do not contain any provisions for the creation of any pre-emptive rights which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

16. REMUNERATION OF DIRECTORS AND SUPERVISORS

For the year ended 31st December, 2001, the aggregate amount of remuneration paid to the executive directors of the Company was approximately RMB1,325,000 and that paid to the supervisors was approximately RMB683,200. The remuneration paid to each executive Director and supervisor was less than RMB1,060,000. The pension schemes of the executive Directors and supervisors have been incorporated into the employee pension scheme of the Company. Details are set out in Note 20(a) to the Financial Statements as contained in this annual report.

The remuneration of the three non-executive Directors of the Company was not paid by the Company.

17. THE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the reported period were either directors or supervisors of the Company. Details of their remuneration are set out in Note 20(b) to the Financial Statements as contained in this annual report.

18. RETIREMENT SCHEME

Details of the retirement scheme are set out in Note 19 to the Financial Statements as contained in this annual report. For the year ended 31st December, 2001, the retirement insurance premium charged to the profit and loss account of the Company was RMB13,444,000 as contained in this annual report.

19. STAFF ACCOMMODATION

The Group does not own any quarters for staff accommodation nor operate any scheme for the provision of staff accommodation. The Group and its staff are required to make contributions to the government at a prescribed percentage of the salaries of the relevant staff to a housing reserve fund. Apart from such contributions, the Group is under no liability for the provision of housing or housing benefit to its staff. For the year 2001, the housing reserve fund paid by the Group amounted to about RMB3,496,200.

20. STAFF, REMUNERATION AND TRAINING

As at 31st December, 2001, the Group had a total of 5,903 employees. The aggregate remuneration paid for the year was RMB81,654,800.

During the reported period, the Company devised guidelines on training program adopted different modes of training such as centralised training and group training, with particular emphasis on case study to enhance participants' hands-on experience. Professional and technical seminars and workshops were organized from time to time and key technical staff were nominated to receive professional training in the PRC. In order to prepare the Company for the construction of a clinker production line with a daily production capacity of 10,000 tonnes, technical and management staff also took part in seminar sessions in Thailand and Korea and attended the information exchange sessions of companies such as Siam City Cement, Siam Cement and Tong Yong Cement regarding the engineering and management highlights of production lines of this scale.

21. LEASEHOLD LAND, BUILDINGS, PLANT AND MACHINERY

Details of changes in leasehold land, buildings, plant and machinery of the Company during the year ended 31st December, 2001 are set out in Note 3 and 4 to the Financial Statements as contained in this annual report.

22. TOTAL ASSETS

For the year ended 31st December, 2001, the total assets of the Group determined in accordance with International Accounting Standards was approximately RMB5,886,330,000 which was more than that of the previous year by approximately RMB1,551,140,000.

23. RESERVES

Details of movements in various reserves of the Company and the Group during the year ended 31st December, 2001 are set out in Note 17 to the Financial Statements as contained in this annual report.

24. DEPOSITS, LOANS AND CAPITALIZATION OF INTEREST

Details of the deposits and loans of the Company for the year ended 31st December, 2001 are set out in Note 25(b) and Note 14 to the Financial Statements as contained in this annual report. The deposits and loans of the Company are placed with creditworthy commercial banks. The Group did not have any trust deposit nor any fixed deposits which could not be withdrawn after the fixed period. The interest for work-in-progress capitalised during the year was approximately RMB10,894,000. Details are set out in Note 19 to the Financial Statements as contained in this annual report.

25. MATERIAL LITIGATION

None of the members of the Group nor any of the Directors, supervisors or senior management of the Company were involved in any material litigation during the year ended 31st December, 2001.

26. AUDITORS

The Financial Statements of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Accounting Standards were audited by Arthur Andersen • Hua Qiang Certified Public Accountants and Arthur Andersen & Co. respectively. The two firms, who retire and being eligible, offer themselves for re-appointment. Resolutions concerning the re-appointment of the two firms will be submitted for consideration at the Annual General Meeting. The two firms have been the auditors of the Group for the past three financial years.

27. A SHARE ISSUE

During the reported period, with the great efforts devoted by the Company and the relevant intermediaries, the work for the issue of the Company's A Shares made tremendous progress. On 21st June, 2001, the issue of A Shares was approved by the listing committee of the China Securities Regulatory Commission. The A Share issue was carried out in January of 2002.

28. CHANGE OF RESIDENCE OF THE COMPANY

The residence of the Company has changed from “209 Renmin Road, Wuhu City, Anhui Province, the People’s Republic of China” to “Economic and Technology Development Zone, Wuhu City, Anhui Province, the People’s Republic of China”. The relevant amendment to the articles of association of the Company was approved at the second extraordinary general meeting of the Company in 2000. The above change has not yet been registered with the relevant authority, due to constraints imposed by the Wuhu Economic and Technology Development Zone on legal address.

Moreover, as “Renmin Road” was renamed as “Beijing East Road”, the Board of Directors will propose a resolution at the forthcoming general meeting for approval of the change of the residence of the Company from “209 Renmin Road, Wuhu City, Anhui Province, the People’s Republic of China” to “209 Beijing East Road, Wuhu City, Anhui Province, the People’s Republic of China”

29. TRANSACTIONS IN ITS SECURITIES

As at ended 31st December, 2001, the Group did not issue or grant any convertible securities, options, warrants or other similar rights. Besides, as at 31st December, 2001, the Group did not have any redeemable securities.

30. DISCLOSURE OF MAJOR EVENTS

1. On 20th January, 2001, the Company injected capital into Shanghai Hailuo Mingzhu Cement Co., Ltd. (“Mingzhu Cement”) in conjunction with other shareholders of Mingzhu Cement — Shantong Nanhua Co., Ltd. and Shanghai Lingqiao Enterprises Development Co., Ltd. (both being independent third parties). After the capital injection, Mingzhu Cement’s registered capital has been increased from RMB8 million to RMB13.71 million, of which 63.4% is held by the Company, and 30.8% and 5.8% by Shandong Nanhua Co., Ltd. and Shanghai Lingqiao Enterprises Development Co., Ltd. respectively.
2. On 9th February, 2001, the Company and its subsidiary Anhui Baimashan Cement Plant jointly set up Bangbu Hailuo Cement Co., Ltd., which had a registered capital of RMB6,000,000, of which RMB5,800,000, or 96.7%, was contributed by the Company and RMB200,000, or 3.3%, was contributed by Anhui Baimashan Cement Plant. Bangbu Hailuo Cement Co., Ltd. is situated in Bangbu City of Anhui Province, where there is an abundant supply of industrial wastes like slag and lemon waste. Bangbu Hailuo Cement Co., Ltd. intends to set up another cement grinding production line with an annual production capacity of 550,000 tonnes, to capitalize on its rich supply of various raw materials, with an objective to reduce production costs, and to develop the cement markets in Bangbu and its neighbouring areas. The establishment of Bangbu Hailuo Cement Co., Ltd. has further perfected the Group’s sales network.

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3. On 16th March, 2001, the Company and its subsidiary Anhui Baimashan Cement Plant jointly set up Wenzhou Hailuo Cement Co., Ltd., with a registered capital of RMB50,000,000, of which RMB47,500,000, or 95%, was contributed by the Company and RMB2,500,000 or 5% was contributed by Anhui Baimashan Cement Plant. Wenzhou Hailuo Cement Co., Ltd. is situated in Yongjia County, Wenzhou City, Zhejiang Province. In order to leverage on the local water transport system and an abundant supply of slag resources, Wenzhou Hailuo Cement Co., Ltd. plans to set up two cement grinding production lines, each with an annual production capacity of 750,000 tonnes. The establishment of this grinding mill will enhance the brand awareness for the Company's products and the competitiveness of the Company's high grade products, and thus increase the market share of the Company's products in the Wenzhou cement market.
4. On 25th April, 2001, the 2000 Annual General Meeting of the Company was convened at 209 Renmin Road, Wuhu City, Anhui Province, at which all resolutions set out in the notice of Annual General Meeting Notice enclosed in 2000 Annual Report were duly passed.
5. The fifth meeting of the second session of the Board of Directors of the Company was held on 10th June, 2001, where the resignation of Mr. Zhang Xushang as non-executive Director was approved with a vote of thanks to the contribution he made during his tenure. An independent non-executive Director will be elected at the 2001 Annual General Meeting of the Company.
6. On 21st June, 2001, under the approval of the Board of Directors, the Company injected RMB153,000,000 into Anhui Zongyang Hailuo Cement Co., Ltd. ("Zongyang Hailuo"). The registered capital of Zongyang Hailuo is RMB300,000,000, of which 51% was contributed by the Company. The remaining 49% was contributed by the Staff Committee of the Company.

Zongyang Hailuo is situated in Zongyang County of Anhui Province on the northern bank of Yangtze River, enjoying great convenience of water transport and an abundance of quality limestone supply. Two clinker production lines, each with an annual production capacity of 750,000 tonnes, constructed under phase one construction commenced trial production in December, 2001.

7. On 21st June, 2001, with the approval of the Board of Directors, the Company made an investment of RMB162,180,000 in Anhui Chizhou Hailuo Cement Co., Ltd. ("Chizhou Hailuo"). The registered capital of Chizhou Hailuo is RMB318,000,000, of which 51% is held by the Company, while the remaining 49% is held by the Staff Committee of the Company.

Chizhou Hailuo is situated in Tongshan Village, Guichi District, Chizhou City. There is an abundant supply of quality limestone and clay. It also enjoys a strategic geographical location, with a limestone mine 2.5 km away and a self-owned pier 2.6 km away from the Yangtze River and is accessible by waterway transport.

Phase one construction plan of Chizhou Hailuo comprises two clinker production lines with an annual production capacity of 1,500,000 tonnes, details of which are set out in section 6 headed “Major Projects” as contained in this report. Phase two of the construction plan comprises a clinker production line equipped with domestically-made facilities with a daily production capacity of 8,000 tonnes (maximum daily capacity of 10,000 tonnes), being the largest of its kind in China. The project has been approved by the State Council by approval document Ji Chan Ye [2001] No.1105 and the preparation work is in progress. The construction is expected to commence in the third quarter of 2002.

8. On 20th August, 2001, under the approval of the Board of Directors, the Company and Shanghai Juxin Investment Development Co., Ltd., jointly set up Fenyi Hailuo Cement Co., Ltd. (“Fenyi Hailuo”) with a registered capital of RMB50,000,000, of which RMB25,500,000, or 51%, was contributed by the Company.

Fenyi Hailuo is situated in Wuze Town, Fenyi County, Jiangxi Province. Upon its establishment, Fenyi Hailuo acquired a vertical kiln with an annual production capacity of 200,000 tonnes from Fenyi Cement Co., Ltd. Fenyi Hailuo intends to undertake technological modification for such production line in the second half of 2002. To take advantage of the abundant supply of raw materials and fuel resources and the convenient railway transport network, Fenyi Hailuo will construct in the second half of 2002 a modern dry-process clinker production line with a daily production capacity of 2,500 tonnes, or an annual production capacity of 750,000 tonnes. The establishment of Fenyi Hailuo is beneficial to the Group’s expansion into the western part of Jiangxi Province and its neighbouring areas and therefore will lead to a greater market share in Jiangxi Province.

9. On 13th October, 2001, the Board of Directors approved the investment of RMB10,000,000 by the Company in Nanjing Hailuo Cement Co., Ltd. (“Nanjing Hailuo”). After such capital injection, the registered capital of Nanjing Hailuo increased from RMB5,000,000 to RMB15,000,000 and the proportion of registered capital held by the Company in Nanjing Hailuo increased from 99.25% to 99.75%.

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On the same day, the Board of Directors also approved the increase in investment of RMB26,200,000 by the Company in Zhangjiagang Hailuo Cement Co., Ltd. ("Zhangjiagang Hailuo"). After such capital injection, the registered capital of Zhangjiagang Hailuo increased from RMB8,800,000 to RMB35,000,000, with the proportion of registered capital held by of the Company increased from 95% to 98.7%.

10. On 14th October, 2001, the Company and its subsidiary, Anhui Ningguo Cement Plant, jointly set up Shangyu Hailuo Cement Co., Ltd. ("Shangyu Hailuo") with a registered capital of RMB16,000,000, of which RMB14,400,000, or 90%, was contributed by the Company and RMB1,600,000, or 10%, was contributed by Anhui Ningguo Cement Plant.

Shangyu Hailuo is situated in Dongguan Town, Shangyu City, Zhejiang Province, where the economy is very prosperous and the cement market has enormous potential. Besides, there is a rich supply of various raw materials at relatively low cost. Upon its establishment, Shangyu Hailuo acquired the productive assets from the dissolved Shangyu Cement Factory. Shangyu Hailuo has an annual grinding capacity of 250,000 tonnes. It is planned that an additional grinding production line with an annual production capacity of 550,000 tonnes will be constructed. Upon the completion of such production line, Shangyu Hailuo will have an annual cement grinding capacity of 800,000 tonnes. Leveraging on the convenient railway transport, the quality clinker supply from Ningguo Cement Plant and the rich local supply of various raw materials, the Group is expected to benefit from the increased competitiveness and thus greater market share of its products in Shangyu and its neighbouring areas.

11. On 28th November, 2001, the Company and its subsidiary, Ningguo Cement Plant, jointly set up Jiande Hailuo Cement Co., Ltd. ("Jiande Hailuo") with a registered capital of RMB50,000,000, of which RMB45,000,000, or 90%, was contributed by the Company.

Jiande Hailuo is situated in Shouchang Industrial Park, Juande City, Zhejiang Province, where there is an abundant supply of natural resources, including quality limestone and sandstone. In order to expand into the cement market in the western part of Zhejiang Province and its neighbouring areas, Jiande Hailuo intends to set up a clinker production line with an annual production capacity of 1,500,000 tonnes and a grinding mill with an annual production capacity of 1,000,000 tonnes.

31. OTHER EVENTS

1. For the year ended 31st December 2001, the holders of the listed securities of the Company, according to the laws of the PRC, were not entitled to any relief from taxation by virtue of their holding of such securities.
2. As the currency operating activities of the Group is limited, there is no large exposure to fluctuations in exchange rates and any related hedges.